Department of Commerce
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Commerce Quarterly Trade Bulletin

Vol. 2, No.4, January 2011

The Quick Rundown

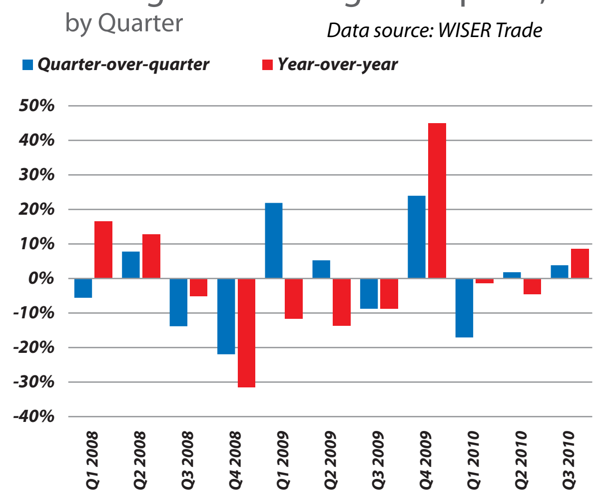
Total exports grew 8.6% in the third quarter of 2010 over the same period in 2009, and 3.8% over Q2 2010 (**Figure 1**). Among Washington's top ten exports by dollar value, the largest year-over-year increases came in inorganic chemicals, precious and rare earth metals, and radioactive components (100.3% increase, to $359.5 million), wood products (60.7% increase; $356.9 million), and iron and steel exports (39.9% increase; $224.8 million). Aerospace products, no surprise, led all exports in Q3 with more than $5.8 billion in sales; September year-to-date (YTD) sales have exceeded $16.7 billion, though this is below last year's pace of $19.1 billion.

China was Washington's largest market through September YTD, with $5.0 billion in sales, followed by Canada ($5.0 billion, rounded up), Japan ($3.9 billion), and South Korea ($1.6 billion). All four of the above showed very strong year-of-year YTD growth, with exports to Korea growing 51.5%, while exports to China and Japan have grown at impressive rates of 21.6% and 21.2%, respectively. In a future edition of this bulletin, we'll look more carefully at how the recently signed U.S.-South Korea Free Trade Agreement might impact Washington's exports to Korea.

Overall exports through the first nine months of 2010 have barely budged from their level in 2009, growing at less than 1%; this compares with U.S. export growth of 22% over the first nine months of 2009. Why has Washington been so far behind the national trend? Part of the reason may be in the structure of our export sector. For instance, aerospace exports, the largest single export product from Washington, are 12.5% below the first nine months of 2009, contributing 86.4% of the total (gross) decline in exports between these two periods. In the U.S., a 4.2% decline in exports had a weighted negative contribution of 72.1%, but of this decline 91.2% came from Washington's decline, so our state essentially drove much of the overall national decline (nearly 40% of the national gross declines were driven by aerospace export declines in Washington).[1] Some of the most significant U.S. export gains were in products that Washington does not produce, such as passenger automobiles. After a period of industry restructuring (and the gains from previous industry shifts), passenger vehicle exports grew 48.7% through September 2010 over the same period in 2009, following an annual decline of 44.1% from 2008-2009. In other cases, our contribution is both smaller and less positive. Oil constitutes an important export from Washington—we rank as the eight largest exporting state, but Washington's non-crude oil exports declined 8.7% compared with the first nine months of 2009, while total U.S. non-crude oil exports grew 34.4% (and was the second largest export good behind civilian aircraft and parts).

China continues to lead as Washington's top aerospace market in 2010, with more than $3.3 billion in sales September YTD,

Figure 1. Change in Washington Exports, by Quarter

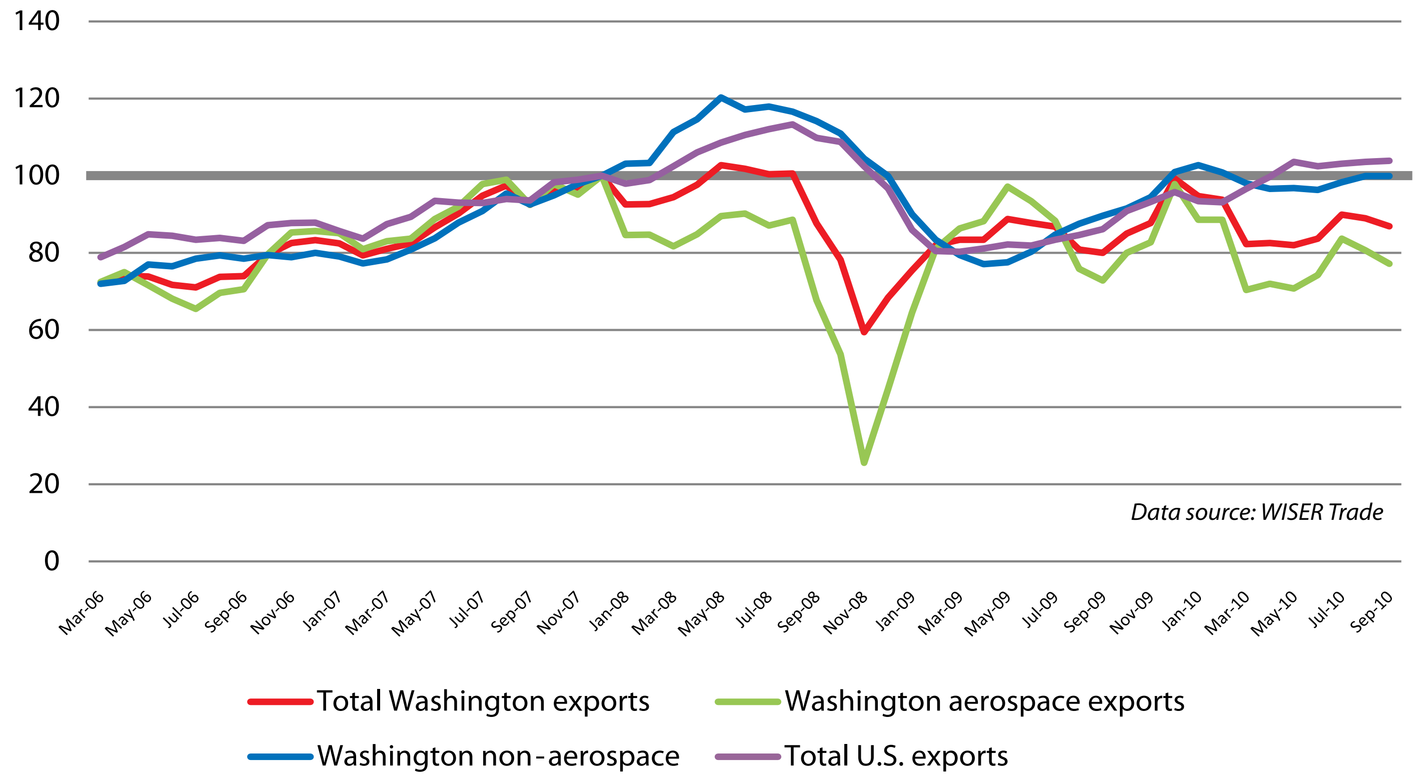


In This Edition

[1] This at first glance may seem confusing, since total U.S. exports actually grew through the first nine months of 2010, so clarification is needed. What we mean by "gross declines" is the sum of the all year-over-year (in this case September YTD 2010 over September YTD 2009) declines by harmonized system (HS) category, i.e., the sum of all negative changes by product category, with "gross gains" simply the opposite of this.

Figure 2. Washington and U.S. Exports

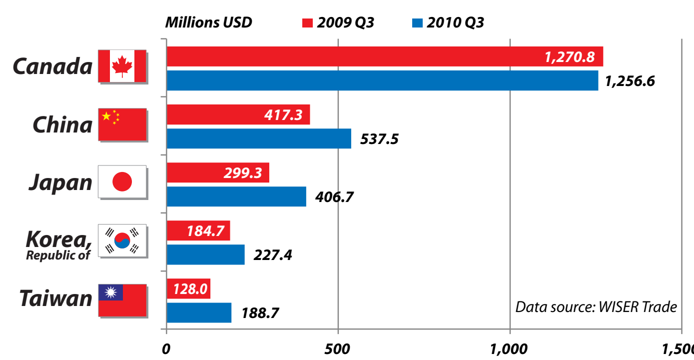
Indexed 3-month Moving Average (December 2007 = 100)



followed by Japan ($1.61 billion YTD) and Ireland ($1.4 billion YTD). Agriculture products were led by wheat, with $353.2 million in sales in Q3, a 21.5% year-over-year increase and 22.3% growth over Q2; top wheat markets in Q3 were Japan ($107.7 million; 0.9% year-over-year growth) and the Philippines ($44.9 million; a 27.1% year-over-year decline, though 108.6% quarterly growth). Indexing Washington's performance to December 2007 using a three-month moving average, non-aerospace exports were back to parity, though this does not factor in fluctuations in the value of the dollar against global currencies (**Figure 2**).

Washington's non-aerospace, non-agriculture exports segment (using the crude acronym "NANA") grew 11.5% year-over-year in Q3, though at a much slower pace of 0.9% over Q2 (an annualized rate of 3.6%). Industrial machinery led all products in this segment in sales, with more than $517.8 million in Q3, 22.1% year-over-year increase. Within this group, forklifts and work trucks grew 155.8% year-over-year ($56.7 million in Q3), parts and attachments for derricks grew 8.8% ($34.2 million), and semiconductor devices 325.6% ($25.2 million in Q3). In Q3, Canada was Washington's largest market for NANA exports ($1.3 billion), followed by China ($537.5 million) and Japan ($406.7 million; **Figure 3**).

Figure 3. Top Five Markets for Washington NANA Exports, Q3 2010



Exclusive: The Logistics Perspective—Interview with Peter Rose, CEO of Expeditors International

In what began as a loose discussion between two friends over beer and a napkin covered in jotted notes quickly grew to four people, then shortly thereafter twenty employees staffing offices in Hong Kong, Taiwan, Singapore, Chicago, Seattle, San Francisco. Thirty years later, **Expeditors International** has more than 250 offices and 12,300 employees. In this edition of the Trade Bulletin, we sat down with Peter Rose, CEO of Expeditors. His thoughts are bluntly honest and insightful, on everything from trade to global supply chains to simple rules of management from the perspective of a logistics executive with decades of experience in the industry.

Commerce: What's enabled Expeditors to not only survive, but thrive over the past thirty years?

Peter Rose: It's all about the people, because what we were up against was FedEx, DHL, UPS. So we're a non-asset-based integrator. People would ask us, "well, how are you going to do that?" It's a matter of flexibility vis-à-vis rigidity.

Commerce: When you say "non-asset," what do you mean?

Peter Rose: No planes, trains, automobiles. We use regularly scheduled airlines and ocean carriers. We set up contracts with the ocean carriers. For, it's based on "what did you give us last year" type of thing. So we're working with all the major carriers—Hyundai, Hanjin, Double O, COSCO, K-Line. With airlines, we have what we call an "E-19 Group"—that's the "elite 19" we use so that offices cannot start using the low-price carrier on a one-off convenience type of thing, so they have to stick with the regularly scheduled carriers. And of course, the greatest thing we did when first started was: we wanted to do well for ourselves, wanted to do well for the customers, and wanted to do well for the employees. And the best way we did that was we gave 20% of the pre-tax bottom line to every branch globally, which lends itself to retention, and everyone here has done relatively well.

Commerce: Did you start out in the freight forwarding business?

Peter Rose: I started out with CP Ships in Montreal, which was Canadian Pacific (steamships), which no longer exists. They had cargo ships and passenger ships, like the Empress of Britain, the Empress of Canada, the Empress of England. Basically cruise ships.

Commerce: So when you work with Hyundai or COSCO, they don't offer their own in-house logistics services? They just do the strictly shipping aspect?

Peter Rose: No. Some of them have their own logistics, like Maersk Line does—they have a thing called "DAMCO"—and some of them dabble in logistics.[2]

Commerce: What are some of the other non-asset-based freight forwarders you compete with?

Peter Rose: The irony is, if you go back thirty years ago—maybe even a little longer--there was a plethora of forwarders and brokers. There might've been six hundred in New York, four hundred in Chicago, four hundred in LA, and now we've come down to a handful. All that's left are UPS, DHL, FedEx…Kuehne Nagel, Schenker, and Panalpina in Europe, Kintetsu in Japan. Here it's us, Ceva, UTI, and then there's a selection of strong regional players. And then there's one-offs that do some specific stuff, because we don't handle commodities. Like the big business in Moscow, Idaho—the peas, beans and lentils—that ship sixty to eighty thousand containers a year…We don't do perishables.

Commerce: What drove all the consolidation in the industry over the past couple decades?

Peter Rose: Just the "me-too" type of thing. They watched everybody else buying and thought, "OK, we'll do the same." And erstwhile names that we thought "one day, we'll be that big"—they're all gone. Airborne [Express], Excel [Freight], Circle [Freight], Fritz [Company]…they no longer exist

Commerce: Fritz got bought by UPS, correct?

Peter Rose: Yep, and there were little ones here, too. When we first started in Seattle, Gladish would eat you a new one. Well, Gladish doesn't exist. Northern Airfreight doesn't exist, Danzas,[3] AEI, Circle, Fritz, Intertrans…they're all gone. They all got bought out by one or the other.

Commerce: Was any of it related to a company's sophistication, as corporations moved more towards a global supply chain?

Peter Rose: Exactly. Because of the way companies were set up, they'd have 60 brokers, and 40 forwarders, and none of it made any sense. But, there is no one in this industry capable of being a one-stop shop. They will go in and sell that "we could be your one-stop shop" type of thing, but no one's capable of offering that. Customers use you either by lane segment,[4] or by region, or they'll use you for import but not for export, or vice versa. They'll use you for customs brokerage, insurance, warehouse and distribution. It's a very basic business, but it's very complicated from within. And of course, our biggest coup was getting into China, and getting into China early, which was

[2] In the 1980s and 1990s, freight forwarders and NVOCCs (Non-Vessel Operating Common Carrier) started providing full service freight consolidation and distribution services. APL started ACS, American Consolidation Services and there were many others. DAMCO is Maersk Line (NVOCC) logistics arm.

[3] Originally Danzas, the company became DHL Danzas Air & Ocean, and finally was rolled into DHL (now part of Deutsche Post).

[4] "Lane segment" can refer to: 1) a tariff schedule that a VOCC has established rates in, such as ANERA (Asia North America Eastbound Rate Agreement) or TWRA (Transpacific Westbound Rate Agreement); or 2) a specific route within one of the tariff agreements, e.g., Hong Kong to Seattle.

in the early 1990s. And we now own 100% of that operation; we don't have a partner. We've got 53 offices in China.

Commerce: Do new logistics companies that want to get into China have to do a joint venture?

Peter Rose: The Chinese got a lot smarter, a lot quicker. Yes, they want that now. It's a little more difficult. But that's because few understand the Chinese mentality, anyways…Everyone that went into China [early on] thought, "if everyone just buys one, we'll sell a billion of these." It didn't work. They often went in with that American bravado, "we're American, we're coming in, and you're going to buy our stuff." That's not how it works. You have to go in and build rapport; this is before you start discussing business. And once you do, and you start to understand a little bit, you can do quite well. And we have done quite well. And now we're watching this phenomenon, where China starts outsourcing to itself. They're going north and west—they're chasing cheaper labor. They even have an illegal immigration problem, from Vietnam and Cambodia—people willing to come in and work for less. Same thing in Eastern Europe. We've been in Hungary, Poland, and Czech Republic, for twelve to fifteen years, and now they're outsourcing to Romania and Bulgaria.

Commerce: We saw total two-way U.S. trade fall 23% from 2008 to 2009—an 18% drop in U.S. exports and 25% decline in imports. However, the first nine months of 2010 have compared well with the same period in 2009—total trade is up 24%, with exports growing 22% and imports 25%. Does this story—of steep decline in trade followed by a more recent strong pick-up—reflect Expeditor's own experience over the past two years?

Peter Rose: 2009 was the worst I've ever seen in my career. Gives me a little idea of what it must've been like during the Depression. 23% [drop] is perfect—that's just what we were under. 2008 was our best year ever, and this year we're beating that. It's all back, now. People [consumers] kept things very close to the vest, and what happened is that phenomenon—we're a consumer nation, and they got tired of [not consuming]. [People finally] needed a new tie, shoes, shirt to feel good, so this year [things picked up dramatically], and I think that was indicative of Black Friday, Cyber Monday…people are spending again.

Commerce: Based on your thirty plus years experience in trade, how would 2009 compare with other episodes of global contraction in trade? Is this the worst you've seen it?

Peter Rose: Last year was. We could see there was a fall in volume at the end of 2008, so we decided we'd have a hiring freeze and take care of everyone here, so that's exactly what we did. We had to take of the 12,000 people at the time.

Commerce: So you didn't have any layoffs?

Peter Rose: No layoffs. You can park planes in the desert, park ships around the world, but you can't park people. Not in a people business. I realize, if you're making ashtrays or something like that, you have to lay people off, but we didn't.

Commerce: So was that the biggest challenge—maintaining your workforce the past two years, and your competitive advantage?

Peter Rose: I don't know…but you would think, how could you get chided for having a no-layoff policy? Well, we did. Wall Street, who in their erudite fashion, said "if you'd laid people off, your profits would've been higher." Yeah, but they would have been bad this year. People look at us for financial viability, IT capability, and the retention of people. The tenure here is what's really paid off. And that's a heavy responsibility. There are 12,300 people [working here], but you're really responsible for 35,000 people's livelihoods, if you take an average family of three or four.

Commerce: From the logistics business perspective, do you see a lot of similarities between what's gone on in China over the past decade, and Japan through the late 1970s and early 1980s?

Peter Rose: It's the same. Of course, the Japanese all outsource now from China. But the hot companies have simply taken over. It was the "Tigers" at the time—Hong Kong, Taiwan, Singapore--we still do well in Taiwan, but half of [the Taiwan business] went to China. And they're well received.

Commerce: Did you lose business from there, or did it just shift?

Peter Rose: It all shifted. It started with retail and electronics. You have these companies today, like Samsung and LG. Look at the names [of electronics companies] that are gone, just like the forwarders and brokers—when's the last time you saw Zenith, RCA, Magnavox (TVs)? Now it's all LG—Motorola was the biggest phone company in the world for a while, then it was Nokia, now it's Apple, Samsung, HTC—had you heard of HTC five years ago? Foxconn? Foxconn has a million employees, second only to Wal-Mart.

Commerce: There's wide consensus that the Chinese RMB is undervalued between 20-40%. When the Chinese government finally allows the RMB to float, will this impact your business? Or will it just balance, with an increase in exports?

Peter Rose: Yeah [more balancing out]. There'll be more outsourcing from other places; Vietnam, Cambodia—India is very hot. Look at Brazil—Brazil's booming. All the BRIC [Brazil, Russia, India, China] countries.

Commerce: Have you seen in shift in the makeup/composition of exporters, e.g. an increase in small and medium-sized companies as clients?

Peter Rose: Not really. It's still the mainstays. It's hard to follow because of all the acquisitions, as well, whether it's an Eaton, or a Parker. You work with Stanley, you try to get in with Black and Decker, but then all of the sudden they merge, so you start over. But what's interesting about the business is every year is an anomaly. So when companies talk about their "five year plan"—I remember one company talking about their "five year plan," and they asked me, "what's yours," and I don't have one. Of course, theirs didn't work, because two years later they were gone. [No one can predict the future] I've got maybe a five month plan. You've got to stay very nimble, stay on your toes, and just be ready for anything. When we had the ILWU [International Longshoremen and Warehouse Union] strike a few years back, this [Port of Seattle] looked like Singapore Harbor. Just looking out this window and seeing all the ships parked and what have you. And of course airfreight went crazy.

Commerce: Would a more balanced trade relationship (eventually) with China, and East Asia, affect your business at all?

Peter Rose: No, we'll just do more exports. We don't care if its air, or ocean, or imports, exports. If the economy's down over here it's not over there.

Commerce: We've heard a lot about empty containers going back to East Asia. Is that affecting your business?

Peter Rose: Not for us. And many of them are still getting filled up, with for instance scrap metal, although the ratio is terrible, from inbound to outbound. Inbound, it's $2000 a container, whereas outbound you can get one for $300-$400. We're [U.S.] not making a lot of stuff—they are. It's their turn. I know everyone's upset about it, but hey, do you want to buy an American stereo, or an American TV, or an American computer? I went to Quanta [Computers], in China, and watched them making laptops—I've never seen anything like it in my life. Eighty seconds and here, here's your laptop—from motherboard to finished product, with a row of four hundred workers, each one with the automatic screwdriver, and they're all doing different things. Eighty seconds later, bingo. You can't do that here.

Commerce: What about port infrastructure? Should there be any important changes or upgrades (e.g. infrastructure improvements) in the Northwest?

Peter Rose: They've talked about combining the three ports here—Seattle, Tacoma, and Everett. They probably should be one port. And I definitely think there'd be some economy savings there.

Commerce: You mentioned the BRICS. What's your take on India? Where do you see areas of growth for your business?

Peter Rose: We've got twenty-four offices in India. In Brazil we've got eight—we just opened offices in Curitiba and Belo Horizonte. Of course, we've got Santos and Sao Paulo, Rio, Manaus. We're well situated everywhere. For future expansion, we're looking at Western and Central Africa and Russia. We're heavy into O&E, which is "oil and energy," so ought to look at places like Liberia, Russia, Nigeria—and, of course, we need to do that very carefully. And a lot of satellite offices, in certain places. You take, for example, in Germany, we've got all the major ones—Frankfurt, Stuttgart, Hamburg, Dusseldorf, Munich, but we're looking at Leipzig, Cologne, Berlin. In Italy, we're in Verona, we're in Milan, Florence, but we've got to look at Genoa, Naples. In England, we have to look at Teesside, Newcastle. North America, we're covered.

Peter Rose also elaborated on management and the need to stick to core competencies…

Peter Rose: We have this little saying, it's "don't do anything stupid." It's the egomaniacal CEO whose idle hands does the devil's work. Next thing you know, their ego takes over, and they think "we can get into this, or into that," delve into this and delve into this, and they'd get into areas they know nothing about, and the next thing you know, they're destroying the company. First lie from a CEO is there'll be no changes. Second lie is there'll be no layoffs. And then everything comes. And after everything is messed up, the CEO comes out and says, "OK, we're going back to basics, back to our competencies." They [many companies that have run into trouble] left their core competencies, trying to do a "me-too" kind of thing, and they ruined the company. Could any company disappear? Yeah, you bet. Who would've thought, five years ago, that the "big three" [auto makers] would be Honda, Toyota, and Nissan?

Exporter Profile: North Star Ice Equipment Corporation

Fish, ice, and concrete—while these three words sound disparate, they form the cornerstone of a global business model. Seattle-based **North Star Ice Equipment Corporation** is a manufacturer of high volume industrial-use ice makers. The company has been in existence for sixty years, with international sales the past forty years. North Star employs forty-five people and exports constitute roughly 75% of their revenues in any given year. Though they focus on variations of a core product line, the diversity of applications is wide, ranging from seafood processing to concrete cooling. In November, we spoke with Jon Deex, CEO of North Star, and their regional sales manager for Asia, Jeff Wittenberger. North Star's international experience illustrates both the challenges and opportunities of exporting, but also the unique path companies take to developing and succeeding internationally.

North Star first began exporting to Southeast Asia forty years ago. About twenty years ago, the company switched from a reactive approach to a more pro-active exporting strategy in the region. North Star found their competitive advantage in the seafood industry. In Southeast Asia, the seafood industry is thriving, and North Star's stainless steel icemakers have been in high demand for their quality and stainless steel design, particularly important in an industry heavily concerned with health safety (80-90% of seafood from Southeast Asia is exported). Importantly, North Star's ice makers are components within a larger integrated processing system. In the seafood industry, their flake ice makers are integrated with many other components, including condensers and compressors; in most cases, the distributor or refrigeration contractor will handle customer search, deal making, product integration, and full system delivery to the end user There are also residual earnings down the road: each flake ice maker has a life cycle of roughly thirty years, over which time North Star can sell replacement parts and other maintenance products.

North Star found the most successful approach involves connecting with sales channel partners, e.g. finding the right group of companies in Thailand that really understand the end-user needs. "Outside of the US, you must focus on the sales channel. What we've done is develop the sales channel and then teach our channel partners or distributors how to sell the product" says CEO Jon Deex. Many of North Star's channel partners are local refrigeration contractors or refrigeration compressor manufacturers. North Star settles all international transactions with letters of credit or with full payment prior to shipment, though the invoice can go either to the distributor or end user, depending on the structure of the deal.

North Star was primarily focused on the U.S. market until about 20 years ago, when they began responding to increased inquiries from Asia. In the early days, companies sought them out, but nowadays competition has gotten much tougher. Southeast Asia seemed a natural market for them, given the scale and growth in the region's seafood industry. In addition to ice makers for seafood processors, the company has also found a niche supplying ice makers for concrete cooling (mixing ice flakes with concrete mix to reduce the temperature and thus the possibility of cracking) for large infrastructure projects, such as major hydroelectric dams. North Star has done numerous such projects in Southeast Asia, including three recent dams in Vietnam, two in Cambodia, one in Laos, and one in Burma. In these projects, they've worked with international general contractors based in Europe, and in Vietnam, large corporations specializing in dam construction. Some of these projects are funded by the Asia Development Bank, though all of North Star's interactions and actual orders come from these large contractors or concrete batch plant suppliers. Still, they've found it's important to network with the government agencies or ministries in order to stay abreast of future infrastructure projects, know who the prospective bidders are, and get information about the project time schedule.

Biggest challenge:

China, China, China. In recent years, Chinese manufacturers have entered the competition in Southeast Asia for ice making and related ice storage and handling equipment, including stainless steel products. Typically, Chinese manufacturers offer prices half to two thirds what North Star offers—prices so low they cut into their own profits in an attempt to maximize market share. For the moment, Chinese manufacturers rely entirely on price, as they lack the global recognition and quality of North Star products, but this will inevitably change. Depending on the sophistication of the buyer, it becomes a challenge to explain the price difference and the quality differences between North Star's products and lesser competitors. For every product North Star sells into Southeast Asia, there are typically at least two Chinese competitors with lower cost structures. While Chinese companies appeal to price-driven buyers for the moment, they are improving quality as well as their marketing and presentation skills. However, in a market so concerned with food safety, North Star has successfully met every U.S. and European industry product standard, while most Chinese products fail to do so.

How Commerce has assisted North Star.

A while back, North Star contacted Commerce (CTED at the time) with an interest in expanding their channel distribution partners in Southeast Asia. Within 30 days, Commerce's overseas contractor came back with a list of seventeen qualified distributors, of which three North Star is currently doing business with.

Market Focus: Association of Southeast Asian Nations (ASEAN)

ASEAN was founded on August 8, 1967, by Indonesia, Malaysia, the Philippines, Singapore, and Thailand, with the later inclusion of Brunei, Vietnam, Burma, Laos, and Cambodia. The bloc covers 2.7 million square miles, and with a population of nearly 600 million people, it is twice that of the United States, behind only China and India.

The organization's primary mission is to promote coordination between its member states in addressing economic development, social progress, and cultural development, as well as to serve as a security forum for regional stability and peace. While at its inception ASEAN was most concerned with preventative diplomacy--most members were under-developed and had only recently been decolonized--since then it has committed itself to building an integrated ASEAN community. ASEAN has stated that by 2015 they will have a single market and production base as part of their ASEAN Community initiative. Member states aim to bring down tariffs to 0-5% and eliminate all non-tariff barriers. ASEAN also has free trade agreements with Australia and New Zealand, China, India, Japan, and South Korea.

ASEAN Economic Statistics

Although ASEAN exports dropped during the downturn, recent recoveries in advanced economies have helped to boost their exports. China's stimulus and growth in final demand has also aided the region's growth in exports and GDP. In 2009, the combined GDP based on purchasing power parity (PPP) of the top five ASEAN countries, excluding Singapore, was $2.45 trillion, a 2% increase from 2008 despite the downturn; the previous ten years saw an average 7% growth in GDP based on PPP. The IMF forecasts PPP-adjusted GDP in 2010 will be $2.65 trillion, and within five years will grow to $3.78 trillion. [5]Per capita GDP based on PPP is also expected to grow from the current $4,872.25 to $6,880.83 by 2015.[6]

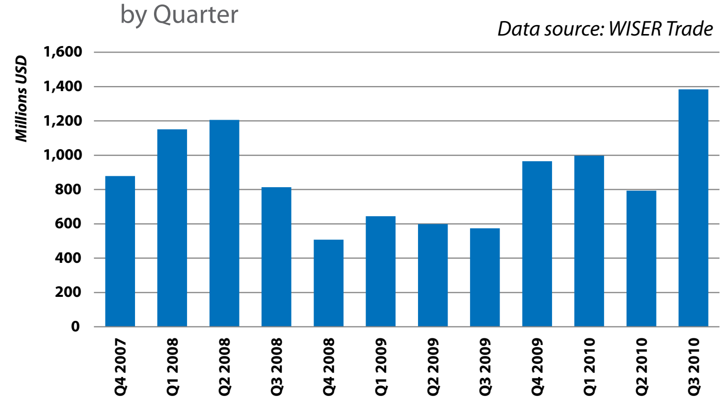
The leading import partners of ASEAN in 2009 were China, at 13% of total imports, Japan, at 11%, European Union 25, at 10%, the US, at 9%, and South Korea, at 5%. The largest import products in 2009 were electric machinery, sound equipment and television equipment accounting for 21% of total imports, mineral fuels and oils for 17%, and nuclear reactors, boilers, and machinery for 15%.[7] U.S. exports to ASEAN in 2009 totaled $67,370,316 in exports, and imports from ASEAN totaled $82,201,773.[8]

The major industries of ASEAN reflect the member states' varying degrees of economic development: Brunei—oil and gas; Cambodia—textiles garments, tourism, agro, wood; Indonesia—food, paper, textiles, chemical and pharmaceuticals, metal, machinery, electronics; Laos—garments, electricity, wood, light industries; Malaysia—electrical and electronics, transport equipment, petroleum products petrochemicals, food, chemical and chemical products; Burma—energy, mining, processing, manufacturing, power, construction; Philippines—electronic components, apparel, IT-enabled services, food processing, woodcraft and furniture, financial services; and Singapore—biomedical products, electronics, energy, chemical products, precision engineering, transportation equipment, ICT products. Indonesia has the largest economy at $960.2 billion GDP by PPP, and is the most populace at 230 million. [9]Singapore and Brunei have the highest PPP-adjusted per capita GDP, at $49,765 and $49,266, respectively.[10] Singapore is the largest recipient of foreign direct investment at $16,256.2 million, followed by Vietnam at $7,600 million.

Trade with Washington State

In 2009, Washington state exports to ASEAN totaled $2.8 billion; this was a 24.3% decrease from the previous year. Among Washington's top five largest export products to ASEAN, the biggest year-over-year declines came in wheat (53.7% decline) and electrical machinery (40.3% decline). Aerospace exports, which made up roughly half of all Washington exports to ASEAN in 2009 (49%), fell 5.8%. However, like most markets, Washington's exports to ASEAN fell in line with the broader decline in global trade beginning in the fourth quarter of 2008 (**Figure 4**). Since then, exports have picked up and are well above historical levels to ASEAN; total exports

Figure 4. Washington Exports to ASEAN, by Quarter

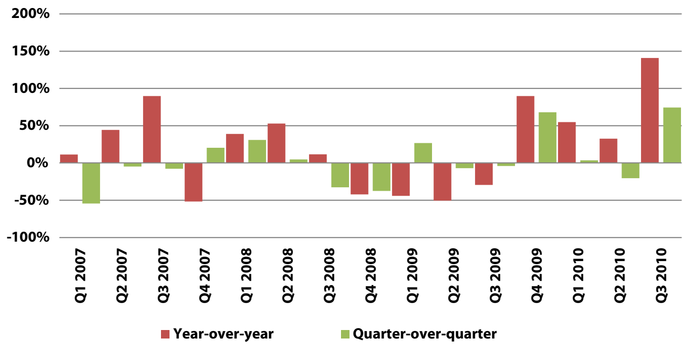


[5] International Monetary Fund, World Economic Outlook Database, October 2010.
[6] Ibid.
[7] ASEAN, External Trade Statistics, Table 22 Top 10 Trade Commodity Groups, 2009.
[8] ASEAN, External Trade Statistics, Table 24 ASEAN Trade by Partner Country/Region, 2009.
[9] CIA World Fact Book.
[10] Selected Basic ASEAN Indicators.

through September 2010 were already more than 14.1% ahead of total exports for all of 2009. On a quarterly basis, year-over-year (YoY) exports grew 140.9% in Q3 2010, the fourth straight quarter of positive YoY growth (and the strongest thus far). Much of this has been driven by aerospace export growth--from Q2 2009 to Q3 2010, aerospace exports grew 437.1%. Non-aerospace have also been strong, growing now for three consecutive quarters on a year-over-year basis (**Figure 5**).

Figure 5. Washington Exports to ASEAN, by Quarter

Data source: WISER Trade



Among electrical machinery exports, the majority came in the form of electronic integrated circuits and mirco-assemblies (more than half, or $65.9 million, in 2009). These exports have been declining the past few years, falling roughly 40% from 2008 levels.

The Washington State Department of Commerce has official representation in two ASEAN countries, Vietnam and Thailand. For more information, contact Mark Calhoon at **mark.calhoon@commerce.wa.gov**

Exporter Notebook: Staying in the Know about the China Compulsory Certification Mark (CCC)

The Chinese Compulsory Certification (CCC) Mark is part of China's larger standards and conformity assessment regulatory regime protecting the public's interest in safety and quality of products sold on the Chinese market.[11] The Chinese government requires companies to undergo a certification process to obtain the CCC license safety mark prior to exporting or selling products in the country. The China National Certification and Accreditation Commission (CNCA) is the authoritative body that establishes and implements the CCC program. CNCA along with the Administration for Quality Supervision Inspection and Quarantine (AQSIQ) produces and updates the CCC catalog that prescribes the categories of products subject to certification.[12]

The CCC Program affects more than 20 percent of U.S. exports to China.[13] The CCC catalog contains over 100 categories across a broad range of sectors, including agriculture, automobiles, construction, cosmetics, household appliances, pharmaceuticals, medical equipment, industrial products, and information technology. CNCA designates certification bodies (DCB), testing laboratories, inspection organizations and certificate-mark issuing agencies to perform the various stages of the certification process.[14] Obtaining the CCC Mark procedure entails the following five major steps:

1. Initial Application—Submission of an application along with supporting materials to the China Quality Certification Center (CQC), the agency that handles the certification application.
2. Type Testing—A CNCA-designated test laboratory in China will test the product samples.
3. Factory Inspection—CQC will send representatives to inspect the manufacturing facilities for the product.
4. Evaluation—CQC will evaluate the results of the laboratory tests and factory inspection and issue a determination on the certification.
5. Follow-up Inspection—CNCA requires Chinese officials to re-inspect approved facilities every year.[15]

Foreign companies may seek exemptions from the CCC Mark application if the product meets specific qualifications set forth in the CCC exemption guide. Moreover, companies have the right to appeal certification decisions or issues with the application process directly to the DCB or CNCA. Violations of CCC Mark regulations,

[11] U.S. Department of Commerce, http://www.export.gov/china/exporting_to_china/importregs.asp.
[12] Ann Weeks and Dennis Chen, "Navigating China's Standards Regime," *China Business Review (CBR)*, May–June 2003, http://www.chinabusinessreview.com/public/0305/weeks.html.
[13] Elise Owen, "Standards in China: Behind the Headlines," *China Business Review (CBR)*, January–February 2010, http://www.chinabusinessreview.com/public/1001/owen.html.
[14] Ibid., at 1.
[15] Ibid.

including actions where certification has been obtained but the company failed to apply CCC labels or an expired certification, can lead to monetary penalties. Products not compliant with the CCC requirements may be seized by Chinese customs at the border and subject to further sanctions.

Difficulties with CCC licensing structure and China's standards and conformity assessment system

The lengthy approval process and higher costs are common problems foreign companies encounter when applying for the CCC Mark. While completion of the CCC certification purportedly takes 90 days, many firms have reported the actual timeframe to be between 6-12 months.[16] The delay is largely attributed to the restrictive nature of the certification activities. For instance, product type testing must be conducted in China and only Chinese authorities are permitted to do factory inspections regardless of the location of the factory. CQC will send representatives abroad to inspect each manufacturing facility that contributes to production (e.g. if there are five separate factories, all of which ship to China, five separate inspections are required). The additional transaction costs affiliated with having factories outside of China places foreign companies at a competitive disadvantage with their domestic counterparts in China. Foreign companies with U.S.-based facilities must obtain visas and fund travel for Chinese inspectors to visit their facilities, further delaying the certification process. Moreover, China has other certification schemes and depending on the product sold companies may be subject to more than the CCC license requirement. One solution that has been proposed by the European Commission is the establishment of foreign testing laboratories which can be accredited by Chinese authorities.[17] There are presently consulting firms in the U.S. and China that specifically assist companies with CCC applications. However, the Chinese government has not accredited any overseas agencies to perform the testing and inspection procedures.

The current CCC licensing scheme is part of a bigger systemic issue with China's standard and conformity assessment regulatory structure which many foreign companies allege creates technical barriers to trade, limiting access to the Chinese market.[18] The Chinese government frequently adopts standards that are not internationally recognized without consulting the private-sector in developing such policies. Foreign companies are often forced to repeat costly testing, inspection or certification that they already completed for other global markets.[19] The lack of transparency in the development of standards and regulations imposes constraints on foreign companies in monitoring and evaluating the effectiveness of regulatory developments. This is particularly salient where standards are developed outside of China's national standards *(guo biao)* framework.[20] Difficulties in compliance also arise where the Chinese government makes sudden modifications without prior notice to standards and regulations that govern exports and where implementation is inconsistently applied in varying parts of China.[21]

For further information on the CCC Mark, visit the U.S. Department of Commerce **website**.

[16] Ibid., at 2.
[17] European Commission Directorate-General for Trade, "Summary of the Results of the Public Consultation of the China Communication," September 2006.
[18] Ibid., at 3.
[19] Ibid.
[20] Ibid.
[21] Ibid., at 7.

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The **Washington State Department of Commerce** provides ***free*** export assistance for Washington state companies, including client searches, export leads, and consultation on a variety of export-related issues. For export-related inquiries, please contact Mark Calhoon, Managing Director for International Trade, mark.calhoon@commerce.wa.gov.

Inquiries on trade data and activities can be sent to:

Washington State Department of Commerce
International Trade and Economic Development

Attn: Spencer Cohen
Research Manager
2001 Sixth Avenue, Suite 2600
Seattle, WA 98121
spencer.cohen@commerce.wa.gov
Phone: (206) 256-6100

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